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District Developments

Economic Development and Government Contracting

January 2004

SBA's 50th Anniversary and Town Hall Meeting a Great Success

New Regional Administrator, Pat Rae Addresses the Town Hall Meeting.

Despite extremely cold weather and heavy snowfall, SBA's Cleveland District Office hosted a very successful event on January 15, 2004 that celebrated SBA's 50th Anniversary as a federal agency. Hosted by the Council of Smaller Enterprises (COSE) and held at the Embassy Suites Hotel Independence, the event brought together small business owners, federal officials, lenders and other resources partner in a Town Hall Meeting to recognize the Agency's accomplishments over its first 50 years and to discuss current issues impacting the entrepreneurial community. The event drew attendees from across Northern Ohio.

Congressman Steven C. LaTourette (OH-14) represented the areas congressional delegation at the meeting. SBA's new Region V Regional Administrator, Patrick Rea, was also introduced at the event. Mr. Rea oversees SBA's operations in five Midwestern states, including Ohio.

Congressman LaTourette, Administrator Rea and District Director Gil Goldberg entertained questions and concerns from the audience that encompassed such subjects as SBA's 7(a) loan program, opportunities for small businesses in the re-construction of Iraq, and problems plaguing area manufacturing concerns.

SBA's first fifty years saw the Agency play a role in the development of such successful firms as FedEx Corp., America Online, Callaway Golf Company and Intel Corporation. With small firms now representing more than 99.7% of all employers in this country, employing more than half of all private sector employees, generating 60 to 80% of net new jobs annually and creating more than 50% of nonfarm private gross domestic product (GDP), SBA expects to play an even greater role in sustaining entrepreneurship over its next fifty years!

This Issue

Congressman LaTourette addresses the Town Hall meeting

SBA Loan CAP of $750,000 in Place

The President's economic stimulus package passed last year has generated an unprecedented level of demand from small business concerns for SBA-guaranteed loans. To date, during fiscal year 2004, SBA's 7(a) loan program is running at 40% ahead of the number of loans approved, and 45% ahead of dollars approved, at this same point in time during last year's record breaking year. **Accordingly, SBA is implementing a maximum loan size of $750,000 on regular 7(a) loans approved on or after January 8, 2004** in order to provide assistance to the maximum number of small businesses. The SBA took a similar action in fiscal year 2003, establishing a maximum loan size of $500,000, and previous Administrators also took similar action in 1997 and 1995 when faced with comparable circumstances. The $750,000 limit should allow SBA to provide continuing, uninterrupted financial assistance. So far, this fiscal year, 95% of the small business owners seeking 7(a) assistance have been funded within the $750,000 limit.

The $750,000 is the gross amount of a loan or loans to a small business and its affiliates that may be approved under the 7(a) program during fiscal year 2004. SBA will not guarantee a loan where the gross amount of the loan exceeds $750,000 while this Policy Notice is in effect. SBA-guaranteed loans to the same borrower or an affiliated business may only be approved when the gross amount of all loans to that borrower and its affiliates during fiscal year 2004 does not exceed $750,000. 7(a) loans already made in fiscal year 2004 are to be included in calculating such gross amount.

The 504 program is not subject to the $750,000 loan size limitation. Lenders should use the 504 program to finance eligible acquisitions of real estate, machinery, and equipment, combined with a companion 7(a) loan for other needs.

FY 2003: The Year in Numbers

The U.S. Small Business Administration approved $16.93 billion in loans and venture capital financing for small businesses in FY 2003. The combined number of loans for the two loan programs of 74,169 is a 50-year record, and an increase of 29 percent from the previous year.

For FY 2003 (ending Sept. 30, 2003), the SBA approved a 50-year record 67,300 loan guaranties amounting to $11.3 billion in the 7(a) General Business Loan Guaranty program. The number of loan approvals in 2003 was 30 percent more than the previous year.

SBA also approved 6,863 loans (up 25 percent from 2002) worth a record $3.16 billion under the Certified Development Company, or 504, loan program.

Over the past 10 years, (FY 1994-2003), the SBA has backed more than $117.24 billion in loans to small businesses, almost twice as much as the total for the agency's entire history before that time ($65 billion from 1953-93).

More than 29 percent of all SBA loan dollars in FY 2003 went to minority borrowers – nearly $4.3 billion to more than 21,808 minority-owned businesses, up 38 percent from FY 2002.

Loans to small businesses owned by minorities increased by 38 percent, from 15,836 in FY 2002 to 21,830 in FY 2003. Loans to African Americans increased by 61 percent, loans to Hispanic Americans

increased by 39 percent, loans to Asian Americans increased by 31 percent and loans to

Native Americans increased by 18 percent. Loan approvals for women small business owners increased by 33 percent, to 16,503 loans, and loans to veteran-owned small businesses rose by 22 percent, to 7,413 loans.

SBA's Microloan program, which promotes economic empowerment at the smallest levels, provided $27.5 million in loans to more than 2,263 borrowers. Under the program, SBA provides funding for loans and technical assistance to non-profit community-based lenders. Since 1992, those lenders have loaned more than $211 million to more than 18,750 entrepreneurs, with an average loan size of about $11,250.

SBA's Small Business Investment Company (SBIC) program, the agency's premier vehicle for providing venture capital to small, growing companies, produced $2.47 billion in equity and debt capital investments during the year. The program's licensed SBICs made more than 4,800 investments in more than 2,600 different small businesses.

Roughly 60 percent of the venture capital deals in the United States during the first nine months of calendar year 2003 were done by licensed SBICs participating in the SBA's venture capital program, representing 11 percent of the total dollar value invested..

During the year, SBA licensed 36 new SBICs with a combined private capital of about $742 million. At the end of the year, the program had 448 licensees with total committed capital resources amounting to almost $21.6 billion.

SBA's Disaster Assistance loan program made about 25,856 disaster recovery loans nationwide, amounting to $885.2 million during FY 2003.

During the year, the SBA completed special programs begun in FY 2002 to provide disaster recovery loans to victims of the September 11, 2001, attacks on the World Trade Center and the Pentagon. The SBA made more than $580.4 million in recovery loans to victims of those attacks, and more than $557 million for the Expanded Economic Injury Disaster Loan program for firms that were impacted by 9/11 located outside of the declared disaster areas in New York and Virginia.

During the same period, the SBA has made 126 loans worth $10.3 million to small businesses small businesses to cover operating costs that cannot be met due to the loss of a key employee called to active duty in the reserves or National Guard.

The SBA's Surety Bond Guarantee program backed 8,974 bonds on behalf of small businesses, a 21 percent increase over the previous year. Of those bonds, 38 percent were on behalf of emerging market small businesses. The bonds resulted in increased contract revenue to participating small businesses totaling $594 million.

Approximately 2.1 million entrepreneurs received business counseling and technical

assistance through one or more of the agency's advisory and training programs:
More than 691,200 people received technical assistance through the Small Business Development Center program;
More than 473,100 people received assistance from the volunteers of the Service Corps of Retired Executives (SCORE);
More than 164,300 people got help at an SBA Business Information Center;
More than 688,600 people used the SBA Small Business Training Network/E-Business Institute on the Internet, more than triple the number from the previous year.
More than 102,500 people got help from an SBA Women's Business Center.

SBA's Internet, e-mail and toll-free telephone service also reached millions of customers during the year. The SBA Web site (www.sba.gov) recorded more than 54 million visits, and reached an average level of 1 million visits a week.

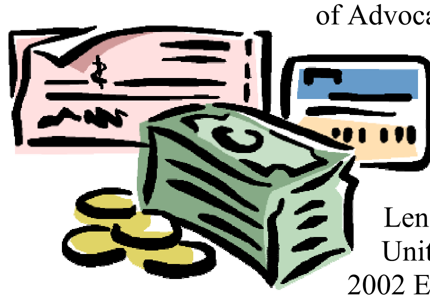
The SBA Answer Desk received an estimated 141,000 calls and more than 16,270 e-mail inquiries, and sent out more than 17,400 small business start-up kits.

Through the first six months of FY 2003, small businesses participating in the SBA's 8(a) Business Development program received $5 billion in contracts. Small companies in the SBA's HUBZone program received $1.8 billion in contracts.

Report Details Jump In Micro-Business Lending

Study Shows Nationwide Increase In Small Business Credit Card Loans

The number of micro-business loans made by U.S. banks jumped by 45 percent in 2001-2002 according to a report released today by the Office of Advocacy. The report, "Small Business and Micro Business Lending in the United States, 2002 Edition,"



indicates that the large increase in the number of micro-business loans (under $100,000) was primarily the result of promotion and use of small business credit cards.

Small business lending as a whole showed only moderate increases during the same period. The country was just emerging from recession and both borrowers and lenders continued to hold off new borrowing and lending in reaction to the uncertain economy. While the smallest business loans increased by 45 percent, the number of loans between $100,000 and $250,000 increased 8.8 percent and those between $250,000 and $1 million increased by 9.8 percent.

"Access to credit is vital for small business survival," said Thomas M. Sullivan, Chief Counsel for Advocacy. "It's critical that small firms know how banks are meeting their credit needs and which banks are investing in small business. This report is one tool small businesses can use when they shop for loans, and it also provides policymakers with data they need to make informed decisions on financial matters," he said.

Designed to help small firms in their search for capital, the report also analyzes bank lending patterns across the United States and across commercial bank sizes. It ranks banks based on their small business friendly and micro-business friendly lending. The report does not rank bank participation in SBA guaranteed loan programs.

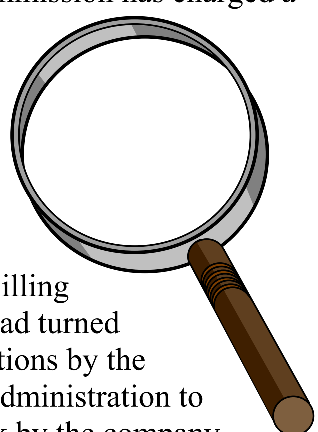
Consolidated Reports of Condition and Income (call reports), which banks submit to their federal regulators and Community Reinvestment Act

(CRA) reports provide the data for the full study. Both the call report and CRA data provide useful information, but they are not comparable. Call report data is considered the most useful when analyzing a bank's commitment to small business lending in their state. CRA data is best for understanding the small business lending activities in different states by large banks and large bank holding companies.

The Office of Advocacy, the "small business watchdog" of the government, examines the role and status of small business in the economy and independently represents the views of small business to federal agencies, Congress, and the President. It is the source for small business statistics presented in user-friendly formats and it funds research into small business issues

FTC Charges Company with Deceptive Marketing to Small Businesses

The Federal Trade Commission has charged a purported Web cramming operation with billing small business owners for "free" Internet services, failing to disclose terms of the sales agreements and billing some companies that had turned down the offer. Objections by the U.S. Small Business Administration to the use of its trademark by the company and complaints from consumers prompted the FTC investigation.



The FTC alleged that Epixtar Corporation and its subsidiaries – including one named SBA Online Inc. – violated federal law by deceptively marketing a free trial of Internet services, and then unfairly billing consumers' telephone accounts without their express informed consent, and without their knowledge. The FTC complaint names Epixtar Corp., Liberty Online Services Inc., National Online Services Inc., B2B Advantage Inc. (formerly known as SBA Online Inc.), and William Douglas Rhodes, president of the companies. The companies are based in Miami, Fla.

Cramming refers to the practice of billing businesses for services that were never authorized and have little value. The bogus charges usually appear on businesses' telephone bills.

The SBA had warned small businesses across the country in March about a company calling itself "SBA Online" after receiving a number of complaints from members of the public advising that representatives of the company were contacting their businesses seeking to interest them in purchasing certain commercial services allegedly offered by their organization, or in paying to become members of "SBA." The complaints said callers frequently sought confidential financial or personal data, and solicited fees for services or membership.

The Web site operated by the company is unrelated in any way to the Web site operated by the SBA at www.sbaonline.sba.gov. The public should also note that the SBA neither solicits membership fees nor contacts businesses to obtain sensitive information about small businesses or individuals unless it is part of a particular matter pending before the agency, such as a loan application.

At the FTC's request, the U.S. District Court for the Southern District of New York has entered a temporary restraining order prohibiting the defendants from making any further misrepresentations and freezing their assets.

For information about the FTC case, visit http://www.ftc.gov/opa/2003/11/epixtar.htm. For information from the FTC about avoiding Web services scams, visit the FTC Web site at http://www.ftc.gov/bcp/conline/pubs/alerts/webalrt.htm.

New Web Tool Helps State Lawmakers Create Business Friendly Climate

Advocacy's New Web Page Offers A One-Stop For Proposed Legislation, Current State Laws, Statistics, And Information

State legislators, small business owners, and activists in the fight for economic development now have a new web tool in their arsenal. Launched today, the Office of Advocacy's web page on its initiative for state regulatory policy offers a wealth of information on current state laws, proposed legislation, statistics, information and much more.

The new web tool, located at www.sba.gov/advo/laws/law_modeleg.html, is the latest step in Advocacy's promotion of small business friendly regulatory policy at the state level. In December 2002, Advocacy presented draft model regulatory flexibility legislation to the American Legislative Exchange Council (ALEC) for consideration by state legislators. ALEC endorsed the model legislation earlier this year.

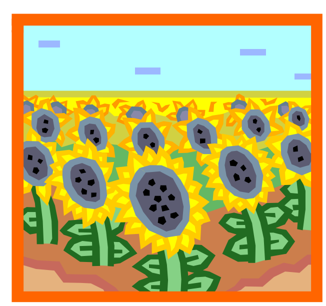
Since then many states have taken steps to encourage small business friendly regulations. North Dakota and Colorado both enacted new legislation and Massachusetts Governor Mitt Romney signed an Executive Order giving small businesses a voice in his state's regulatory process.

The legislation, modeled after the federal Regulatory Flexibility Act (RFA), would require state agencies to consider their impact on small business before imposing regulatory mandates. By listening to small businesses, state agencies can ensure that small business resources that would have been spent on over burdensome new regulations are instead available for hiring new employees and making new investments. At the same time, agencies still meet their regulatory goals such as higher environmental quality, greater travel safety, better workplace conditions, and increased family financial security.

Currently, states offer a patchwork of laws that protect small business owners and their employees from excessive regulatory mandates. Some states offer protections similar to the RFA that mirror the role of the Office of Advocacy. Other states offer little or no protection from the one-size-fits-all regulatory mentality.

For more information on small business friendly regulation for states, visit the new Office of Advocacy web page at www.sba.gov/advo/laws/law_modeleg.html.

Special Notice on Brownfields



The purpose of this notice is to provide you with information on the Brownfields Federal Partnership Action

Agenda and to request that you disseminate this information to your resource partners. A brownfield is real property in which the expansion, redevelopment, or reuse of that property may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

The Brownfields Federal Partnership Action Agenda was established in response to the Small Business Liability Relief and Brownfields Revitalization Act of 2002 (PL 107-118). The Partnership Action Agenda represents the focused efforts of 23 federal agencies, making over one hundred commitments to work together in a timely manner to help communities more effectively prevent, assess, safely clean up, and sustainably reuse brownfields.

The U.S. Small Business Administration's commitment to the Partnership Action Agenda is to disseminate brownfields-related information to SBA's District Offices, and to make all of its programs available (while maintaining its existing environmental requirements for loan approval) to small businesses located near brownfields. This information notice responds to that commitment. The brownfields-related information includes: (1) Tax Incentives; (2) Superfund Liability Exemption; (3) SBA Loan Policy; and (4) Environmental Issues (as described in summary form below).

Tax Incentives: Under the Taxpayer Relief Act of 1997, certain environmental clean-up costs at targeted brownfields sites may be fully deducted by the current owners of the property in the year in which they are incurred. This is not a tax credit, but it indirectly reduces the tax burden by lowering taxable income. The incentive allows a business to claim eligible cleanup costs as a current expense, rather than having to capitalize them as long-term assets. By deducting these costs, the business reduces its current income and can capture the tax savings now rather than later. To determine if a specific property is eligible for a brownfields tax incentive, go to www.epa.gov/brownfields/html-doc/eligible.htm.

Superfund Liability Exemption: In January of 2002, the President signed into law the Small Business Liability Relief Act and Brownfields Revitalization Act ("Brownfields Act"), which implemented revisions to the Superfund statute. The Superfund statute imposes liability for the clean-up of hazardous substances on parties which currently own the relevant property, which owned such property in the past, or which transported or arranged for the transportation of hazardous substances to contaminated property, without regard to whether the party was responsible for causing the contamination. Among the revisions, the Brownfields Act provides certain limitations on the liability of parties for the clean-up of hazardous substances. Thus, property owners who purchase land that is next to contaminated property and "bona fide purchasers" who purchase property that is contaminated due to a prior landowner's actions are afforded protection from liability under the revisions if they meet a list of conditions. The exact scope of protection provided by these revisions is not entirely clear, and small businesses may want to consult with an attorney in order to determine whether they can obtain protection under these revisions. District office personnel should consult with SBA counsel in the Office of Litigation.

SBA Loan Policy: In December 1997, SBA revised its SOP to give district offices greater latitude in evaluating the risk to collateral property from environmental contamination. This revision provided guidance for field offices to determine whether the risk was manageable so that financial assistance could be provided.

Environmental Issues: A recent study by George Washington University shows that encouraging brownfields cleanup and redevelopment removes pressures to develop greenspace. Every acre of brownfields that is redeveloped saves 4.5 acres of greenfields. This is because greenfield land use requirements include land-consuming provisions such as setback requirements, parking requirements, lot coverage or density limitations, and minimum lot sizes.

For additional information on tax incentives for brownfields sites and the superfund liability exemption, please contact either Patricia Overmeyer (202-566-2774) or Tony Raia (202-566-2758) of the U.S. Environmental Protection Agency's Office of Brownfields Clean-up and Redevelopment. You may also want to check the EPA web site at www.epa.gov/brownfields.

SBA, OMB, GSA and DOD Work Together to Integrate Pro-Net and CCR Database and Simplify Contracting Process for Small Businesses

The U.S. Small Business Administration, the Department of Defense, the Office of Management and Budget and the General Services Administration are taking steps to simplify the federal contracting process by creating an integrated database of small businesses that want to do business with the government.

The integration of the existing Pro-Net and DOD's Central Contractor Registration (CCR) databases will create one portal for entering and searching small business sources and will assist small businesses with marketing their goods and services to the federal government. The integration will begin on Jan 1.

The CCR-PRO-Net linkage is part of a comprehensive strategic effort to transfer Pro-Net's functions to the E-Gov Business Partner Network (BPN) in order to simplify government-wide vendor registration. The network is part of the Integrated Acquisition Environment (IAE), one of the e-government initiatives under the President's Management Agenda. IAE is carrying out OMB's mandate for new processes to streamline federal acquisition by creating common integrated business processes for buyers and sellers in the federal marketplace. The network incorporates DOD's CCR database. Registration in CCR is now a requirement for federal contracts. After Dec. 31, CCR will assume all of Pro-Net's search capabilities and functions and small businesses will no longer need to manually register in both Pro-Net and CCR.

"We are continuing to make strides in simplifying the process to help small businesses conduct business with the government," said SBA Administrator Hector V. Barreto. "By integrating PRO-Net's functions into CCR, the foundation of the Business Partner Network, we are helping to advance the President's goal of a single, user-friendly, integrated acquisition environment."

This merger is another step toward the goals to unify common systems and ensure that data need only be entered once and then reused.

Procuring agencies and contracting officers who rely on Pro-Net as the authoritative source for vendors that are certified in SBA's

8(a) Business Development program, HUBZone Empowerment Contracting Program and Small Disadvantaged Business program will now access this information through CCR. To conduct market research and confirm eligibility for SBA's procurement preference programs, users will go to the CCR Web site at www.ccr.gov and click on the "Dynamic Small Business Search" button. All of the search options and information that existed in Pro-Net will now be found at the CCR Dynamic Small Business Search site.

Within SBA, Pro-Net will be superseded by the Small Business Source System, an internal database of businesses certified by SBA as participants in the 8(a), HUBZone and SDB programs. Businesses will no longer have to self-certify as small businesses. The SBSS system will perform calculations necessary to determine whether companies are small, based on employment or revenue information entered into CCR. Firms will update their records on the CCR Update Web page and should follow the links and directions found there.

For more information about CCR, please visit the CCR Web site at www.ccr.gov.
For more information about IAE, visit the Web site at http://egov.gsa.gov. For more about SBA e-Gov activities, please contact Ronald E. Miller, SBA Program Executive Officer for E-Gov at (202) 401-8214.